

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-14 ISO-00 SP-02 ICA-20 AID-05 EB-08  
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-01 INR-10 NSAE-00 XMB-04 OPIC-06  
LAB-04 SIL-01 L-03 PA-02 DOE-15 SOE-02 /139 W  
-----101008 241439Z /42 10

R 240840Z MAY 78  
FM AMEMBASSY BERN  
TO SECSTATE WASHDC 6309  
INFO AMEMBASSY BONN  
AMEMBASSY BRUSSELS  
USMISSION GENEVA  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY ROME  
AMCONSUL ZURICH POUCH

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C O R R E C T E D C O P Y (TEXT)

USMTN ALSO FOR MISSION  
USOECN ALSO FOR EMBASSY  
PASS TREAS AND FRB  
EO 11652: NA  
TAGS: EFIN, SZ  
SUBJECT: SWISS FINANCIAL REVIEW: WEEK MAY 14-20  
1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC  
DECLINED SLIGHTLY; GOLD PRICE ROSE. INTEREST RATES  
ROSE. SWISS NATL BANK DIRECTORATE HELD PRESS  
CONFERENCE TO EXPLAIN MONETARY DEVELOPMENTS; EXPRESSED  
SATISFACTION WITH US MONETARY AND EXCHANGE RATE  
POLICY. SOCIALIST PARTY CONGRESS APPROVED BANKING  
INITIATIVE. VALUE ADDED TAX (VAT) WOULD BECOME  
EFFECTIVE APR 1979 IF APPROVED. FOREIGN TRADE  
EXPANDED IN APRIL. MACHINE INDUSTRY SHOWED MIXED  
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RESULTS IN FIRST QUARTER 1978. END SUMMARY.  
2. FOREX AND GOLD:  
A) DOLLAR RATE AGAINST SF FELL TOWARD WEEKEND  
FOLLOWING REPORTS THAT CENTRAL BANKS HAVE BEEN  
SELLING DOLLARS AND US MARKET INTERVENTIONS HAVE  
DECLINED. DEALERS SAID DELAY IN CONGRESSIONAL  
COMPROMISE ON US GAS PRICE AND BUNDESBANK PRESIDENT'S

STATEMENT THAT DOLLAR RECOVERY WAS PROBABLY EXAGGERATED WERE ADDITIONAL NEGATIVE FACTORS. DEALERS EXPECTED DOLLAR TO STRENGTHEN ON BASIS OF HIGHER US INTEREST RATES BUT STRESSED THAT FUNDAMENTAL US ECONOMIC SITUATION REMAINED UNCHANGED AND MARKET REMAINS VOLATILE.

B) DEALERS SAID GOLD PRICE ROSE ON BASIS OF STRONG INDUSTRIAL DEMAND AND REDUCED SOVIET OFFER WHILE SOME BANKS MOVED TO COVER OPEN POSITIONS. ADDITIONAL FACTORS WERE UNREST IN ZAIRE, US INFLATION OUTLOOK, AND INCREASED FAR EAST SPECULATION. DEALERS EXPECTED MARKET TO ABSORB US TREAS GOLD SALES WITH LITTLE DIFFICULTY. RATES FOLLOW:

|                   | 5/16 (OPEN) | 5/19 (CLOSE) |
|-------------------|-------------|--------------|
| SPOT DOLLAR       | 1.9950      | 1.97L0       |
| FORWARD DISCOUNTS |             |              |
| (PCT PER ANNUM)   |             |              |
| 1 MONTH           | 6.92        | 7.31         |
| 2 MONTHS          | 6.53        | 6.73         |
| 3 MONTHS          | 6.66        | 6.62         |
| 6 MONTHS          | 6.55        | 6.62         |
| 12 MONTHS         | 6.06        | 6.09         |
| SF/DM             | 93.92       | 93.14        |
| GOLD              | 176.5       | 178.5        |

3. CAPITAL MONEY MARKETS: STOCK PRICES SLIPPED AS EXCESSIVE OPTIMISM RECEDED FOLLOWING MAY 16 ADJUST-  
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MENT TO RESTRICTIONS ON INVESTMENTS BY FOREIGNERS. SKA SHARE INDEX DIPPED TO 243.8. STOCK PRICE SHOWED SLIGHT IMPROVEMENT FRIDAY ON SNB STATEMENT OF POSSIBLE EARLY END TO RESTRICTIONS ON FOREIGN INVESTMENTS. AVERAGE YIELD CONFEDERATION BONDS ROSE SLIGHTLY TO 3.48. BANKERS EXPECTED TREND TO HIGHER CAPITAL MARKET YIELDS. NEW CENTRAL MORTGAGE INSTITUTE LOAN WITH 3.25 PCT INTEREST FOUND INITIAL INVESTOR INTEREST WEAK. FOREIGN BORROWERS ANNOUNCED NEW LOANS BEARING 4 AND 4.5 PCT INTEREST. FOUR LARGEST BANKS RAISED TIME DEPOSIT INTEREST RATES 0.5 PCT DUE TO HIGHER EURO OF ANC RATES; 3 TO 11 MONTH DEPOSITS NOW YIELD 1 PCT AND ONE-YEAR DEPOSIT BEARS 1.25 PCT INTEREST.

4. SNB POLICY:

A) PRES LEUTWILER TOLD PRESS SWISS MONEY SUPPLY (M1) GREW AVERAGE 11.4 PCT ON ANNUAL BASIS DURING FIRST QUARTER 1978; M1 WAS UP 16.7 PCT IN MAR WHILE M2 WAS UP 7 PCT COMPARED MAR 1977. TRANSFERS FROM TIME TO SIGHT DEPOSITS WERE STIMULATED BY LOW INTEREST RATES; SIGHT DEPOSITS END MAR WERE 23.3 PCT ABOVE END 1977 WHILE TIME DEPOSITS DECLINE 6.2 PCT. RECENT FOREX CALM ENABLED MONETARY BASE DECLINE SF

2.5 BILLION OR 9 PCT SINCE JAN; HOWEVER, M1 MIGHT  
INCREASE IN COMING MONTHS, REDUCING LIKELIHOOD OF  
ACHIEVING 5 PCT 1978 AVERAGE GROWTH RATE TARGET.  
SNB FIRST QUARTER 1978 DOLLAR PURCHASES AMOUNTED TO  
SF 4.35 BILLION FOR NET SF 464 MILLION INCREASE  
AFTER CAPITAL EXPORT CONVERSIONS. HOWEVER, CAPITAL  
EXPORTS APR 1 TO MAY 17 WERE SF 1,755 MILLION,  
INCLUDING SF 760 MILLION IN DOLLAR SALES, PARTICULARLY  
LARGE FOREX TRANSACTION WITH ANOTHER CENTRAL BANK.  
SNB DOES NOT PLAN NEW LARGE STERILIZATION MEASURES.  
LEUTWILER EXPECTS CAPITAL INFLOW RESTRICTIONS TO BE  
LIFTED SOMETIME DURING 1978 IN ONE STEP WHEN DOLLAR  
RATE STABILIZED AT SF 2 AND SWISS MONETARY BASE  
DECREASED SUFFICIENTLY TO ENABLE SNB MAKE FOREX  
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INTERVENTIONS

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B) LEUTWILER SAID FOREIGN BORROWERS APPEAR

ATTRACTED BY LOW INTEREST RATES AND DISCOUNT  
EXCHANGE RISK ON REPAYMENT. TOTAL FIRST QUARTER  
SNB CAPITAL EXPORT AUTHORIZATIONS IN SF MILLIONS  
WERE:

| TYPE  | AMOUNT | PCT CHANGE FROM 1977 |
|-------|--------|----------------------|
| BONDS | 1,600  | 39.7                 |
| LOANS | 2,536  | 21.6                 |
| NOTES | 3,235  | - 2.1                |
| TOTAL | 7,371  | 12.8                 |

C) SNB VP SCHUERMAN EXPECTED ACTIVE SWISS  
MONETARY MARKET TO BECOME ESTABLISHED WHEN SNB  
RECEIVES AUTHORITY TO ENGAGE IN OPEN MARKET ACTIVITIES.  
ESTIMATED TOTAL 1978 CAPITAL MARKET BORROWING AT  
SF 7.2 BILLION OF WHICH SF 3.8 BILLION BY FOREIGNERS;  
SAID SWISS INVESTORS WOULD PROVIDE SF 7 BILLION  
INCLUDING SF 1.6 BILLION FOR PAPER ISSUED BY  
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FOREIGNERS. SNB FOLLOWS PROBLEM OF EARLY LOAN REPAY-  
MENT BY FOREIGN BORROWERS; MOST REPAY LONG-TERM LOANS  
AT MID-TERM. SNB WOULD LIKE USUAL TERM REDUCED FROM  
15 TO 8 YEARS. FOLLOWING SHOWS SNB ESTIMATE OF  
FOREIGN LOAN REPAYMENTS OVER COMING YEARS: (SF  
BILLIONS):

|      |     |
|------|-----|
| 1977 | 5.8 |
| 1978 | 4.8 |
| 1979 | 5.3 |
| 1980 | 8.1 |
| 1981 | 6.6 |
| 1982 | 5.2 |
| 1983 | 7.6 |
| 1984 | 3.8 |
| 1985 | 5.2 |
| 1986 | 6.5 |

D) SNB GEN MGR LANGUETIN SAID LAST WINTER FOREX  
CHAOS CAUSED DISENCHANTMENT WITH FLOATING EXCHANGE  
RATES. SAID TRADE-WEIGHTED SF WAS UP 22 PCT COMPARED  
MAY 1977. HE STRESSED US POLICIES NOW APPEAR MORE  
CREDIBLE; BELIEVED EXCHANGE RATE ADJUSTMENT AND  
STABILITY WOULD BE ACHIEVED THROUGH INTEREST RATE  
DIFFERENTIALS. HOWEVER, HE SAID IT IS MORE IMPORTANT  
FOR SWISS BUSINESS TO BE ABLE TO RELY ON MONETARY AND  
ECONOMIC STABILITY THAN TO KNOW FUTURE SF EXCHANGE  
RATE.

E) NZZ EDITORIAL COMMENTED THAT SNB PRESS  
CONFERENCE INDICATED SNB WAS HELPLESS AGAINST DOLLAR  
RATE FLUCTUATIONS; THEREFORE SNB FORECASTS OF  
MONETARY STABILITY APPEAR TO BE WISHFUL THINKING.  
5. BANKING INITIATIVE: SOCIALIST PARTY CONGRESS  
VOTED APPROVAL FOR PARTY TO COLLECT 100,000 SIGNATURES

REQUIRED TO PRESENT ITS BANKING INITIATIVE FOR  
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REFERENDUM. INITIATIVE AIMS AT INCREASING CONTROL  
OVER BANKS' ACTIVITIES AND ECONOMIC INFLUENCE,  
PRIMARILY BY REQUIRING GREATER DISCLOSURE OF  
OPERATIONS AND TAX INFO ON CLIENTS  
ACCTS WHICH COULD BE PROVIDED TO FOREIGN INVESTIGATING  
AUTHORITIES. SWISS BANKERS' ASSN COMMUNIQUE  
SAID INITIATIVE WOULD DILUTE SWISS BANK  
AND LEAD TO DECLINE OF SWISS FINANCIAL MARKET WITH  
LOSS OF JOBS. SAID SWISS LAW ALREADY REQUIRES  
SUFFICIENT DISCLOSURE TO (#) ACTIVITIES AND

INSURANCE PLANS ARE UNDER STUDY TO PROTECT SMALL  
DEPOSITORS.

6. TAX REFORM: SWISS OFFICIALS SAID THAT IF  
PARLIAMENT PASSES PROPOSED VALUE ADDED TAX AND IF  
VAT IS APPROVED BY SWISS VOTERS IN DEC 1978 REFERENDUM  
IMPLEMENTATION COULD BE MADE IN APR 1979  
WITH INITIAL

RECEIPTS BY JUNE 1979. GOVT EXPECTS VAT TO  
INCREASE CONSUMER PRICE INDEX BY 1.5 PCT. HOWEVER,  
INITIAL INDICATION IS THAT VAT IS RUNNING INTO  
OPPOSITION IN PARLIAMENTARY COMMITTEES.

7. FOREIGN TRADE: SWISS IMPORTS IN APR WERE  
SF 3,572 MILLION AGAINST EXPORTS OF SF 3,454  
MILLION; INCREASE OF 19.8 PCT AND 12.2 PCT,  
RESPECTIVELY, IN REAL TERMS ON ANNUAL BASIS. TRADE  
BALANCE FOR FIRST 4 MONTHS 1978 IS DEFICIT SF  
613 MILLION COMPARED WITH SF 567 MILLION SAME  
PERIOD 1977.

8. MACHINE INDUSTRY: SURVEY OF 200 FIRMS IN KEY  
MACHINE INDUSTRY SHOWED VOLUME OF FIRST QUARTER  
1978 NEW ORDERS OF SF 3.1 BILLION WERE 12 PCT  
BELOW LAST QUARTER 1977, THOUGH UP 4 PCT COMPARED  
FIRST QUARTER 1977. FIRST QUARTER SALES OF SF  
2.9 BILLION WERE LOWEST IN 2 YEARS. AVERAGE WORK  
ORDER BACKLOG WAS UP SLIGHTLY TO 7.5 MONTHS, BUT  
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SITUATION VARIED ACCORDING TO BRANCH WITH INSTRU-  
MENTS, CONSTRUCTION AND ELECTRONIC MACHINES ENJOYING  
LARGEST VOLUME OF BACK ORDERS. WARNER

NOTE BY OC/T: (#) PARA. 5., LINE 13 OMISSION.

CORRECTION TO FOLLOW.

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## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** ECONOMIC REPORTS, FRANC, FOREIGN EXCHANGE RATES, FINANCIAL DATA  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 24 may 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** n/a  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:**  
**Disposition Date:** 01 jan 1960  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978BERN02439  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** N/A  
**Errors:** N/A  
**Expiration:**  
**Film Number:** D780221-0437  
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**From:** BERN USMTN  
**Handling Restrictions:** n/a  
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**Litigation Codes:**  
**Litigation History:**  
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**Message ID:** 1371c397-c288-dd11-92da-001cc4696bcc  
**Office:** ACTION EUR  
**Original Classification:** UNCLASSIFIED  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
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**Previous Classification:** n/a  
**Previous Handling Restrictions:** n/a  
**Reference:** n/a  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 29 mar 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** N/A  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2594228  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** SWISS FINANCIAL REVIEW: WEEK MAY 14-20  
**TAGS:** EFIN, SZ  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/1371c397-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
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